FDIC State Profile

Winter 2005

Alabama

Employment growth in Alabama continues to moderate.

- Alabama's economic performance has moderated for two consecutive quarters (see Chart 1). In third quarter 2005, employment was up 1.2 percent from a year earlier, dipping below the national average. While the state performance recently approached its pre-recession peak, it has struggled to maintain its momentum.

- Economic growth varied throughout the state in third quarter 2005. Professional and business services had the largest year-over-year percentage increase, while information reported the largest employment decline. Strong performance by foreign auto manufacturers continued to fuel job growth in **Tuscaloosa**. In contrast, the **Auburn-Opelika** and **Birmingham** metropolitan areas had weak job gains, and the **Anniston-Oxford** and **Gadsden** metropolitan areas posted year-over-year job losses. Rebuilding efforts from Hurricane Katrina could result in temporary gains for the state's construction industry.

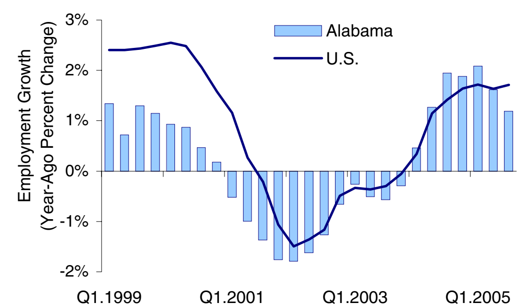
Home price appreciation has reduced affordability.

- According to the Office of Federal Housing Enterprise Oversight, home prices appreciated 8.1 percent for the 12 months ending September 30, 2005. Steady appreciation during the past five years has pushed home prices to a record level of 3.6 times household income. Moreover, affordability has been reduced as 58 percent of households in Alabama have annual incomes of at least $31,380, which is needed to purchase the median-priced home of $134,435 using conventional financing (see Chart 2). In contrast, 65 percent of households had sufficient income to purchase the median-priced home at year-end 2004. Rising mortgage interest rates could further reduce affordability.

Housing markets may be in a state of transition.

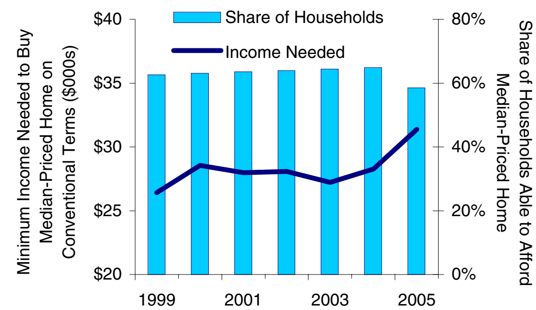
- A number of factors such as higher mortgage interest rates and lower homebuyer optimism are starting to weigh on the housing market. Recent trends suggest that an inflection point may have been reached in some local housing markets as they are transitioning from a sellers' to a buyers' market. For example, in the **Baldwin County**

Chart 1: Job Growth in Alabama Has Moderated



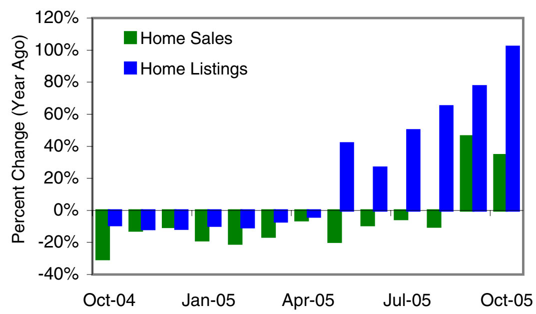
Source: Bureau of Labor Statistics

Chart 2: Housing Affordability in Alabama May Suffer From Higher Interest Rates



Source: U.S. Census Bureau, National Association of Realtors, Moody's Economy.com

Chart 3: Existing Home Inventories are Rising Rapidly in Baldwin County



Source: Alabama Real Estate Research and Education Center housing market, monthly sales of existing homes during 2005 were generally lower than the prior year (see Chart 3). However, these lower sales were artificially inflated in September and October because of post-Hurricane Katrina activity. In any event, monthly inventories of unsold homes have increased dramatically from year ago levels during the past few months. While inventory levels and days on market are still below late-1990s' levels, the recent rise in inventory may portend future price softening and longer marketing periods.

Rising energy costs may mute the state's economic growth.

- Energy costs have increased substantially in recent years. Nationwide, more than 9 percent of wages and salaries are spent on energy—the highest since the late 1980s. In Alabama, per capita residential expenditures are estimated at $2,094 and industry experts expect the burden of higher energy prices to rise even further in 2006 (see Chart 4).

- Rising energy costs also could have a significant impact on key Alabama industries. Among the state's leading industries is pulp and paper, the third largest industrial user of energy in the U.S. manufacturing sector. Other businesses that rely heavily on gasoline, such as transportation, manufacturing, and agriculture, may also be burdened by rising fuel prices.

Financial pressures may weigh on consumers.

- The combination of rising energy costs, interest rates, insurance premiums, taxes, and debt servicing requirements may add stress to consumers' finances. Prior to the implementation of the new bankruptcy law in mid-October 2005, Alabama saw an increase in personal bankruptcy filings, which will likely be followed by a decline later in the year. However, the accumulating pressures building on consumers may contribute to a rise in filings in 2006.

Branch office growth has slowed.

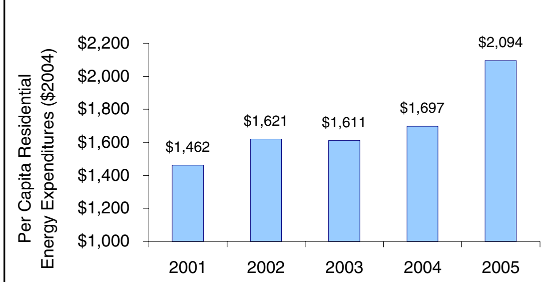
- Annual Summary of Deposit data collected by the FDIC as of June 30, 2005, show that Alabama added eight banking offices from a year ago. In contrast, the state added 15 offices in 2004. Alabama ranked 47th nationally for bank office growth rate during 2005. The growth was concentrated in **Montgomery** and **Huntsville**, while **Decatur** had four fewer offices. Far more branches have been opened in urban areas resulting in greater branch density per population than most rural counties (see Map 1).

Banking conditions in the state of Alabama remain sound.

- Overall, Alabama community banks continued their solid performance.[1] Net income finished the third quarter at $201 million, up from $173 million a year earlier. Earnings have been fueled by robust loan growth, which has also led to higher profitability. Net interest margins improved 13 basis points to 4.24 percent as of September 30, 2005, while return on assets improved 9 basis points to 1.31 percent. While gains in profitability are directly attributed to an increase in net interest income, lower provision expenses also were a factor (see Chart 5).

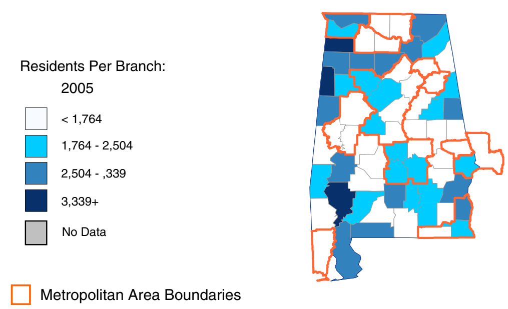
[1] Commercial banks with assets less than $1 billion (excludes specialty and de novo banks).

Chart 4: Alabama Residents Are Paying Significantly Higher Energy Bills Because of the Run-up in Energy Prices



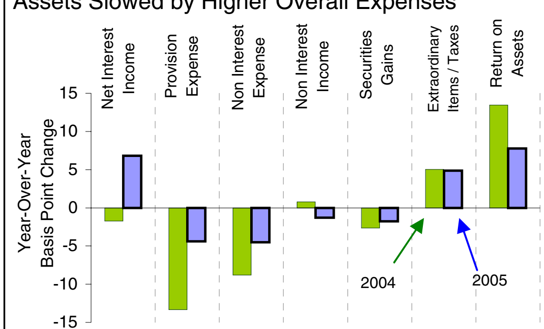
Sources: Energy Information Administration, Moody's Economy.Com, FDIC

Map 1: Many Urban Counties Have a Low Number of Residents Per Branch



Source: FDIC, Bureau of the Census, Moody's Economy.com

Chart 5: Alabama Community Bank Return on Assets Slowed by Higher Overall Expenses



Source: FDIC, third quarter data.

Alabama at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q3-05	Q2-05	Q3-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.6%	1.9%	1.4%	-0.4%
Manufacturing (15%)	1.4%	2.1%	0.3%	-1.0%	-4.4%
Other (non-manufacturing) Goods-Producing (6%)	1.9%	3.4%	3.6%	3.3%	-0.8%
Private Service-Producing (60%)	1.5%	1.7%	2.5%	2.2%	0.3%
Government (19%)	0.0%	0.5%	1.0%	0.4%	1.1%
Unemployment Rate (% of labor force)	4.0	4.4	5.6	5.6	5.8

Other Indicators	Q3-05	Q2-05	Q3-04	2004	2003
Personal Income	N/A	6.3%	5.5%	5.6%	4.1%
Single-Family Home Permits	-1.1%	-5.7%	6.0%	16.4%	10.5%
Multifamily Building Permits	22.4%	54.7%	-6.3%	32.7%	7.3%
Existing Home Sales	12.0%	14.0%	9.1%	19.5%	14.0%
Home Price Index	8.1%	8.1%	4.6%	4.1%	4.1%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	11.06	9.55	9.11	9.30	9.12

BANKING TRENDS

General Information	Q3-05	Q2-05	Q3-04	2004	2003
Institutions (#)	159	160	164	164	162
Total Assets (in millions)	216,549	214,837	227,289	237,298	214,750
New Institutions (# < 3 years)	9	9	9	7	6
Subchapter S Institutions	28	27	23	24	23

Asset Quality	Q3-05	Q2-05	Q3-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.58	1.49	2.19	1.99	2.68
ALLL/Total Loans (median %)	1.29	1.28	1.34	1.31	1.36
ALLL/Noncurrent Loans (median multiple)	2.44	2.47	1.89	1.86	1.48
Net Loan Losses / Total Loans (median %)	0.11	0.10	0.15	0.24	0.35

Capital / Earnings	Q3-05	Q2-05	Q3-04	2004	2003
Tier 1 Leverage (median %)	9.95	10.01	9.75	9.61	9.32
Return on Assets (median %)	1.19	1.28	1.18	1.12	1.04
Pretax Return on Assets (median %)	1.59	1.72	1.52	1.54	1.47
Net Interest Margin (median %)	4.18	4.15	4.11	4.12	4.02
Yield on Earning Assets (median %)	6.35	6.10	5.75	5.70	5.86
Cost of Funding Earning Assets (median %)	2.19	2.01	1.65	1.63	1.85
Provisions to Avg. Assets (median %)	0.15	0.15	0.19	0.21	0.24
Noninterest Income to Avg. Assets (median %)	0.70	0.74	0.78	0.74	0.72
Overhead to Avg. Assets (median %)	2.72	2.78	2.83	2.84	2.80

Liquidity / Sensitivity	Q3-05	Q2-05	Q3-04	2004	2003
Loans to Assets (median %)	63.1	61.9	60.0	60.3	60.8
Noncore Funding to Assets (median %)	26.7	26.1	25.8	25.4	25.2
Long-term Assets to Assets (median %, call filers)	17.1	18.5	22.0	20.9	23.2
Brokered Deposits (number of institutions)	59	52	52	54	46
Brokered Deposits to Assets (median % for those above)	4.2	4.6	5.2	5.1	4.3

Loan Concentrations (median % of Tier 1 Capital)	Q3-05	Q2-05	Q3-04	2004	2003
Commercial and Industrial	79.1	77.5	76.4	79.7	89.3
Commercial Real Estate	200.5	190.9	181.2	191.1	183.4
Construction & Development	42.8	36.6	27.9	31.6	26.2
Multifamily Residential Real Estate	4.2	4.0	3.2	4.1	2.6
Nonresidential Real Estate	134.9	135.3	129.5	134.5	125.3
Residential Real Estate	172.2	170.1	167.5	175.1	175.9
Consumer	59.0	59.8	62.3	64.5	66.7
Agriculture	11.8	10.8	10.8	10.1	10.7

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Birmingham-Hoover, AL	41	19,824	< $250 million	124 (78%)
Montgomery, AL	19	5,260	$250 million to $1 billion	27 (17%)
Mobile, AL	12	5,235	$1 billion to $10 billion	4 (2.5%)
Huntsville, AL	17	4,851	> $10 billion	4 (2.5%)
Columbus, GA-AL	13	4,541		